SEC. 942. PRODUCTION INCENTIVES FOR CELLULOSIC BIOFUELS.

- (a) PURPOSE.—The purpose of this section is to—
- (1) accelerate deployment and commercialization of biofuels:
- (2) deliver the first 1,000,000,000 gallons in annual cellulosic biofuels production by 2015;
- (3) ensure biofuels produced after 2015 are cost competitive with gasoline and diesel; and
- (4) ensure that small feedstock producers and rural small businesses are full participants in the development of the cellulosic biofuels industry.
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- (b) DEFINITIONS.—In this section:
- (1) Cellulosic Biofuels.—The term "cellulosic biofuels" means any fuel that is produced from cellulosic feedstocks.
- (2) ELIGIBLE ENTITY.—The term "eligible entity" means a producer of fuel from cellulosic biofuels the production facility of which—
- (A) is located in the United States;
- (B) meets all applicable Federal and State permitting requirements; and
- (C) meets any financial criteria established by the Secretary.
- (c) Program.—
- (1) ESTABLISHMENT.—The Secretary, in consultation with the Secretary of Agriculture, the Secretary of Defense, and the Administrator of the Environmental Protection Agency, shall establish an incentive program for the production of cellulosic biofuels.
- (2) Basis of incentives.—Under the program, the Secretary shall award production incentives on a per gallon basis of cellulosic biofuels from eligible entities, through—
- (A) set payments per gallon of cellulosic biofuels produced in an amount determined by the Secretary, until initiation of the first reverse auction; and
- (B) reverse auction thereafter.
- (3) FIRST REVERSE AUCTION.—The first reverse auction shall be held on the earlier of—
- (A) not later than 1 year after the first year of annual production in the United States of 100,000,000 gallons of cellulosic biofuels, as determined by the Secretary; or
- (B) not later than 3 years after the date of enactment of this Act.
- (4) REVERSE AUCTION PROCEDURE.—
- (A) IN GENERAL.—On initiation of the first reverse auction, and each year thereafter until the earlier of the first year of annual production in the United States of 1,000,000,000 gallons of cellulosic biofuels, as determined by the Secretary, or 10 years after the date of enactment of this Act, the Secretary shall conduct a reverse auction at which—
- (i) the Secretary shall solicit bids from eligible entities:
- (ii) eligible entities shall submit—
- (I) a desired level of production incentive on a per gallon basis; and
- (II) an estimated annual production amount

in gallons; and

- (iii) the Secretary shall issue awards for the production amount submitted, beginning with the eligible entity submitting the bid for the lowest level of production incentive on a per gallon basis and meeting such other criteria as are established by the Secretary, until the amount of funds available for the reverse auction is committed.
- (B) Amount of incentive received.—An eligible entity selected by the Secretary through a reverse auction shall receive the amount of performance incentive H. R. 6—287

requested in the auction for each gallon produced and sold by the entity during the first 6 years of operation.

- (C) COMMENCEMENT OF PRODUCTION OF CELLULOSIC BIOFUELS.—As a condition of the receipt of an award under this section, an eligible entity shall enter into an agreement with the Secretary under which the eligible entity agrees to begin production of cellulosic biofuels not later than 3 years after the date of the reverse auction in which the eligible entity participates.
- (d) LIMITATIONS.—Awards under this section shall be limited to—
- (1) a per gallon amount determined by the Secretary during the first 4 years of the program;
- (2) a declining per gallon cap over the remaining lifetime of the program, to be established by the Secretary so that cellulosic biofuels produced after the first year of annual cellulosic biofuels production in the United States in excess of 1,000,000,000 gallons are cost competitive with gasoline and diesel;
- (3) not more than 25 percent of the funds committed within each reverse auction to any 1 project;
- (4) not more than \$100,000,000 in any 1 year; and
- (5) not more than \$1,000,000,000 over the lifetime of the program.
- (e) PRIORITY.—In selecting a project under the program, the Secretary shall give priority to projects that—
- (1) demonstrate outstanding potential for local and regional economic development;
- (2) include agricultural producers or cooperatives of agricultural producers as equity partners in the ventures; and
- (3) have a strategic agreement in place to fairly reward feedstock suppliers.
- (f) AUTHORIZATIONS OF APPROPRIATIONS.—There is authorized to be appropriated to carry out this section \$250,000,000.